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EU-28

Sugar Annual

Report

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Report Highlights:

EU sugar production in MY 2019/20 is forecast at 19.4 million MT, up from 18.2 million MT in MY 2018/19 in which an enduring summer drought took a significant toll on beet growth, but well below the record 20.5 million MT production in MY 2017/18. EU sugar imports are seen stable at 1.5 million MT; while EU exports fluctuate with production, up again at 2.4 million MT in MY 2019/20, from 2.0 million MT in MY 2018/19, but much lower than the 3.9 million MT in MY 2017/18. EU sugar consumption is slowly decreasing to 18.5 million MT in MY 2019/20. Ending stocks are forecast to remain stable at 1 million MT in MY 2019/20 and MY 2018/19, but down from 2 million MT in MY 2017/18.

Executive Summary:

EU sugar production is forecast to bounce back to 19.4 million MT in raw sugar equivalent (RSE) in marketing year (MY) 2019/20, from 18.2 million MT in MY 2018/19 in which an enduring summer drought took a significant toll on beet growth. This is well below the record 20.5 million MT production in MY 2017/18, which was the first year after the termination of the EU quota production system. The 2019 beet acreage is forecast to be three percent below the 2018 acreage as farmers are pessimistic about the outlook for this year's beet prices. The ban on the use of seeds covered with a nicotinoid-containing pellet in the majority of the member states (MS) is another strain on beet acreage. The industrial sugar use for non-food purposes, including for bio-ethanol is forecast to remain just below 2.4 million MT as in previous years.

EU sugar imports are forecast to remain stable at 1.5 million MT as low sugar refining margins are a brake on CXL quota imports, which carry a \$98/ MT import duty and little new market access is opening up from the most recent free trade agreements that the EU is implementing. EU sugar exports for MY 2019/20 are forecast at 2.4 million MT, up again from 2.0 million MT in MY 2018/19, but remaining well below the 3.9 million MT exported in MY 2017/18.

EU domestic sugar consumption has been stagnating for the last few years as reports broke about consumers looking for healthier, lower sugar containing diets and food processors reformulating products for lower sugar content. Recent immigration at least partly compensated for this decreased consumption from an aging population. It also remained uncertain how big EU sugar stocks really were at the end of the quota regime. However, evidence from EU sugar market numbers now clearly points to a decreasing consumption. EU sugar consumption for MY 2019/20 is forecast to decrease to 18.5 million MT RSE, down 50,000 MT from MY 2018/19 and 100,000 MT from 2017/18.

Sugar ending stocks in the EU are forecast at barely over 1 million MT at the end of MY 2019/20, stable from MY 2018/19, but down from almost 2 million MT at the end of MY 2017/18.

Brexit and CAP

The exit of the United Kingdom (UK) from the EU, the so-called Brexit, which was originally planned for March 29, 2019, was expected to potentially have a significant impact on EU sugar markets in MY 2018/19 and MY 2019/20. This impact would have greatly differed depending on whether the UK would have stayed in the customs union or rather exited on WTO terms without an agreement with the EU. However, because of the political impasse in the UK, the exit date has now been postponed and it is unclear when and what the impact of Brexit will ultimately be – see policy section.

The uncertainties around Brexit are also having an impact on the EU discussions for the new Common Agricultural Policy (CAP) post 2020, as the modalities of the UK leaving the EU will impact the EU budget for the CAP.

Commodities:

Sugar, Centrifugal

Production:

Explanatory Notes to the reader:

- This report updates the market evolution for European Union (EU) sugar markets as the first Marketing Year (MY) 2017/18 after the abolishment of the 50-year-old EU sugar production quota regime has ended.
- The EU sugar production quota regime expired at the end of MY2016/17. As a result, the limitation on the production of isoglucose, such as High Fructose Corn Syrup (HFCS), also ended with the abolition of the sugar quota regime at the end of MY 2016/17.
- Despite the removal of all limitations to EU sugar production, EU farmers remain protected against competition from non-preferential raw cane sugar by high tariffs and import quotas. A safeguard on preferential duty-free imports from Least Developed Countries (LDCs) under the Everything-But-Arms (EBA) Agreement, continues to limit potential imports to 3.5 million MT white sugar equivalents. In recent years, additional country- specific quotas have been agreed as part of EU free trade agreements (FTAs) with Peru, Colombia, Panama and Central America totaling some 260,000 MT. Ukraine was also allocated a 20,000 MT quota, while the new Southern African Development Community [1] (SADC) Economic Partnership Agreement (EPA) from October 2016 is granting South Africa duty-free quotas for 150,000 MT of sugar. In 2016, as part of the EU-Vietnam FTA, Vietnam was awarded a duty-free quota for 20,000MT of sugar. In the spring of 2018, the EU and Mexico agreed to grant a 30,000 MT quota for Mexican sugar imports at a €49/MT duty to be phased in over three years. The implementation of the EU-Vietnam and EU-Mexico agreements is expected during 2019.
- All sugar numbers are in raw sugar equivalent (RSE) unless otherwise noted.
- The Production, Supply & Demand tables (PS&D) in this report only pertain to sugar as defined by Harmonized System (HS) code 1701; therefore, it excludes raw beet sugar production destined for fermentation or other industrial purposes. In the past, because EU sugar produced under the quota system was preserved for food use only, the so-called out-of-quota sugar was used only for industrial (non-food) use. From MY 2017/18 onwards, there is no regulated distinction between sugar for food purposes and sugar for non-food purposes. However, the EU Sugar GAIN report continues to exclude thick juice from sugar beet for bioethanol and fermentation purposes, as thick juice does not meet the HS 1701 definitions.
- The conversion factors and marketing years used in this report:
MY = marketing year; for sugar October/September.
Raw cane sugar = 1.07 X Refined cane sugar
Raw beet sugar = 1.087 X White (refined) beet sugar
- Sugar imports for EU inward processing purposes are excluded from this report PS&D tables as these sugar imports are entirely re-exported as processed products. Inward processing is the EU customs program under which the import duties for dairy, sugar, and starch containing commodities for processing and subsequent re-export are waived.
- EUR/USD exchange rate.



Source: ExchangeRate.com

Acknowledgements

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[1] <http://ec.europa.eu/trade/policy/countries-and-regions/regions/sadc/>

EU Sugar Production

EU28 Sugar, Centrifugal						
	2017/2018		2018/2019		2019/2020	
Market Year begin	October 2017		October 2018		October 2018	
In thousand Metric Tons	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	2,238	2,238	2,234	1,923	0	1048
Beet Sugar Production	20,625	20,552	19,250	17,900	0	19,150
Cane Sugar Production	271	271	275	275	0	275
Total Sugar Production	20,896	20,855	19,525	18,115	0	19,375
Raw Imports	1,060	982	1,100	1,100	0	1,100
Refined Imp.(Raw Val)	440	401	400	400	0	400
Total Imports	1,500	1,383	1,500	1,500	0	1,500
Total Supply	24,634	24,444	23,259	21,598	0	21,973
Raw Exports	5	6	5	5	0	5
Refined Exp.(Raw Val)	3,595	3,915	2,995	1,995	0	2,395
Total Exports	3,600	3,921	3,000	2,000	0	2,400
Human Dom. Consumption	18,800	18,600	18,800	18,550	0	18,500
Total Use	18,800	18,600	18,800	18,550	0	18,500
Ending Stocks	2,234	1,923	1,459	1048	0	1073
Total Distribution	24,634	24,444	23,259	21,598	0	21,973

The EU beet acreage for MY 2019/20 is forecast to decrease by three percent from MY 2018/19 as low sugar prices resulted in low beet prices in 2018/19 and farmers are pessimistic about prices in the coming year. The exceptions are Austria, where beet acreage suffered severe losses from insects in 2018, and Poland, where farmers are eager to increase sugar beet growing after the end of the EU sugar production quota restrictions.

Based on an average yield forecast, the sugar production forecast for MY 2019/20 is 19.1 million MT RSE. This is despite an average 2-3 week delay in sugar beet planting in most of Western Europe. This delay results from continued rain during all of March, even as soil moisture storage remains below normal levels after last year's drought. Regular rain levels during the summer beet-growing season will thus be critical to achieve this average yield level.

The sugar production for MY 2018/19 significantly decreased further by 1.4 million from previous forecasts, as the drought continued until the end of the beet-harvesting season and beet never had a chance to recover from the summer drought. Record-high sugar contents in beet could not compensate for the low beet yields. This resulted in beet slicing campaigns at many beet processing plants ending several weeks earlier than originally planned. This shorter slicing campaign eroded the capacity use of

many beet plants, resulting in higher fixed cost per ton of sugar produced as the gains from the higher sugar content could not fully compensate for the lost beet volume. The final review of the MY 2017/2018 sugar production resulted in a minor downward adjustment of previous expectations.

Updated production expectation for MY 2018/19 and forecast for MY 2019/20

EU sugar beet production									
	Area, thousands of Hectares			Sugar beet yield in MT per Hectare			Sugar content in percentage		
	17/18	18/19	19/20	17/18	18/19	19/20	17/18	18/19	19/20
Austria	42.8	31.1	40.0	68.0	68.7	70.0	17.20	16.00	17.00
Belgium	64.7	63.7	60.0	90.0	80.0	82.0	18.00	18.50	18.00
Denmark	34.4	34.4	32.0	71.4	66.9	70.0	16.20	16.60	16.50
Finland	11.8	9.8	8.5	36.6	39.2	38.0	21.10	14.50	18.00
France	486.0	485.2	470.0	95.1	80.0	80.0	18.00	19.00	18.00
Germany	407.0	413.0	400.0	84.0	63.0	76.0	17.90	19.10	18.00
Greece	6.5	5.0	1.4	64.0	59.0	59.7	13.50	13.50	13.50
Italy	38.0	34.3	33.5	64.6	57.7	62.0	15.30	13.50	15.30
Netherlands	85.4	85.8	80.0	93.3	74.8	85.0	16.65	17.40	17.00
Portugal	0.1	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00
Spain	36.8	34.4	33.5	96.8	92.5	99.5	18.33	18.46	17.84
Sweden	31.1	30.7	26.0	63.2	68.1	65.0	15.70	12.50	16.00
U.K.	107.0	109.8	100.0	83.0	65.0	72.0	17.82	17.94	17.50
Czech R.	66.5	66.3	62.8	73.9	70.0	72.0	17.50	18.30	18.00
Hungary	18.6	16.3	16.0	63.0	61.2	63.1	16.50	15.50	16.00
Lithuania	16.8	16.8	17.0	60.0	59.0	64.0	16.00	16.60	17.20
Poland	230.8	239.0	245.0	68.1	59.7	65.0	16.49	17.75	17.50
Slovak R.	22.2	22.4	22.5	55.0	59.7	65.0	16.50	15.43	16.20
Romania	28.1	25.0	26.0	41.8	37.0	40.0	17.00	16.50	16.50
Croatia	20.0	14.0	15.0	65.0	65.0	65.0	16.00	16.00	16.00
Total EU-15	1351.6	1337.2	1284.9						
Total NMS	403.0	399.8	404.3						
Total EU-28	1754.6	1737.0	1689.2						

EU-15: pre-2004 EU MS; NMS: 13 New Member States that acceded since 2004.

Source: FAS/USEU based on data from Foreign Service analysts in EU MS.

Total Sugar Beet Production Including Additional Production for Non-food Industrial Use

EU Beet Sugar Production (raw value)			
in thousand MT	2017/18	2018/19	2019/20

EU Sugar Production	20,552	17,900	19,150
Industrial Use	2,350	2,350	2,350
Total EU Beet Sugar Production	22,902	20,250	21,500

Source: FAS/USEU calculation based FAS EU contributions.

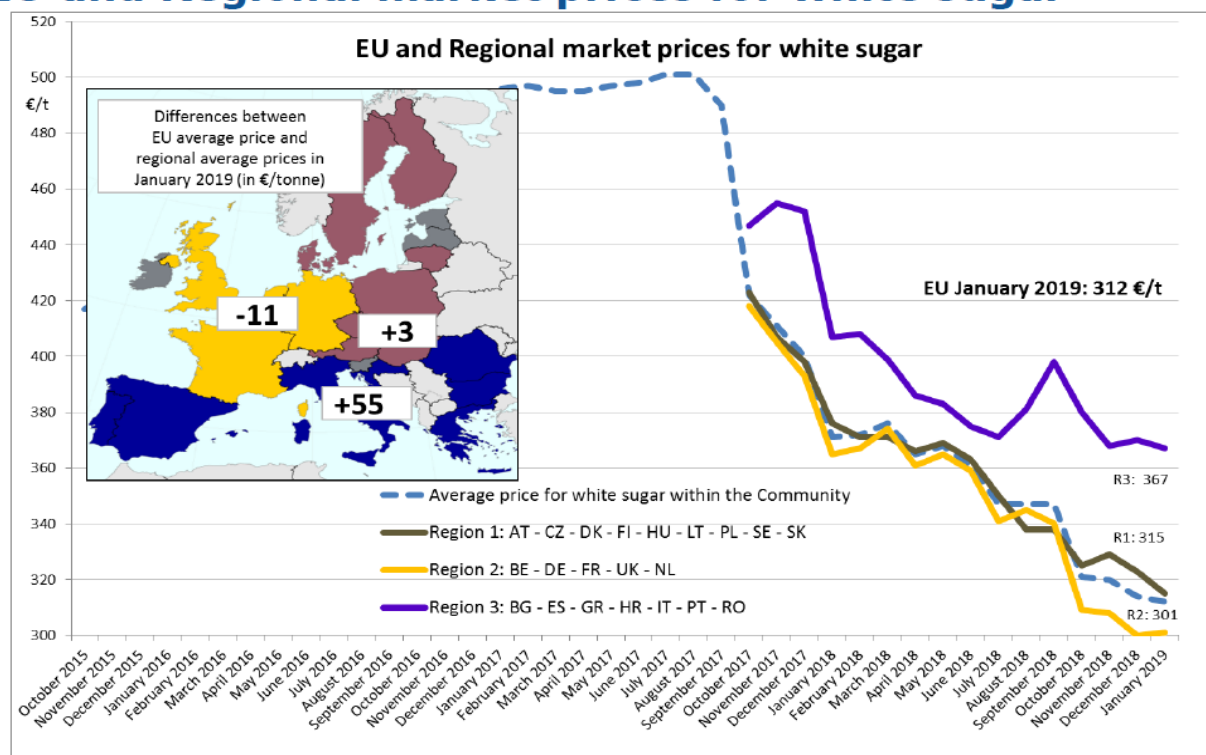
Total EU sugar beet sugar production for MY 2019/20, including for industrial use, is forecast at 21.5 million MT RSE. This is an increase of 1.25 million MT compared to MY 2018/19 despite the lower acreage. The industrial use of raw sugar juice for fermentation and bio-ethanol production is forecast to remain stable as low beet yields evaporated surplus beet production that farmers could have used to supplement fodder shortages or for bioethanol production as previously expected.

Consumption:

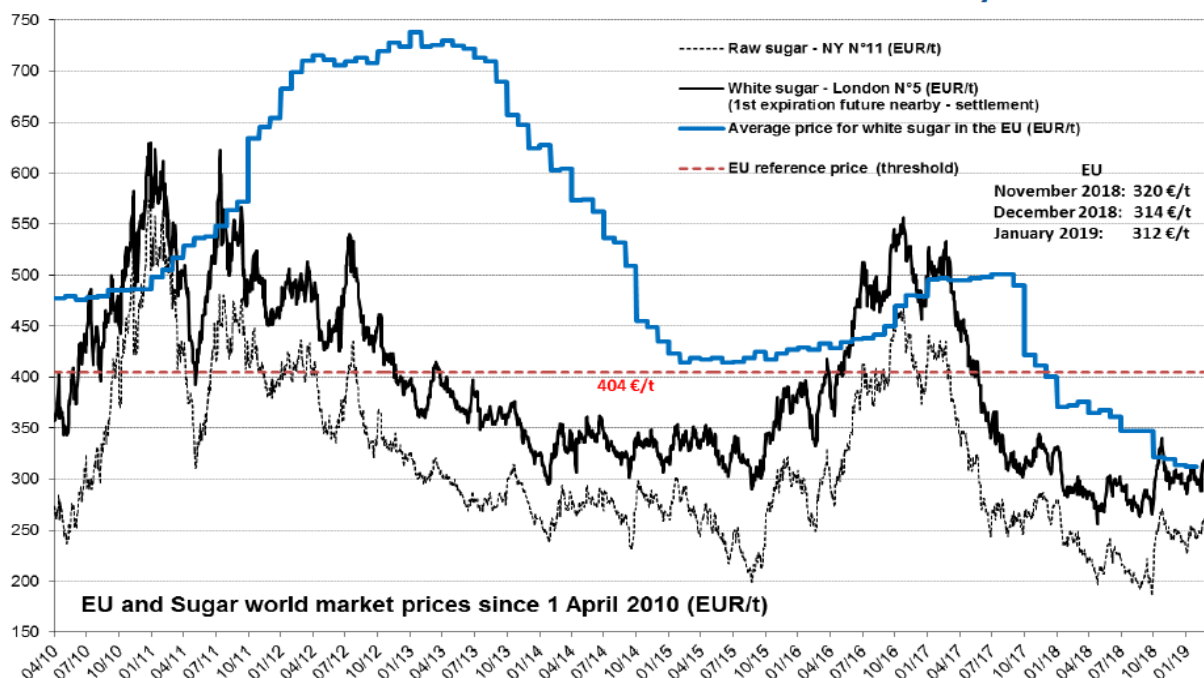
EU sugar consumption has plateaued in recent years. The abundance of the MY 2017/18 production seemed to have sustained consumption, but a review of the numbers at the end of the year show evidence that the trend towards lower sugar usage in food in the EU is materializing. Food processors are responding to consumer and health authorities' pressure to reduce sugar content in food through reformulating products. Further, the continuation of the demographic aging of the EU population, despite continued immigration, is compounding the consumption decrease. As a result, the EU sugar consumption forecast for MY 2019/20 has decreased to 18.5 million MT from its peak consumption of 18.75 million MT just three years ago.

The difference in sugar availability in the EU market between the core producing MS (Region 2: Belgium, France, Germany, Netherlands and United Kingdom) and EU MS in the periphery (Region 3: Bulgaria, Romania, Greece, Croatia, Italy, Spain and Portugal) leads to price differentiation as evidenced in the below EU price reporting slide by region (see price reporting regions in below price graph). While this price reporting is dominated by contractual sales, including from long-term contracts, and therefore does not reflect spot prices, it still indicates market dynamics. This price difference allows EU sugar refiners, as well as less efficient beet sugar processors in this area to generate a larger margin.

EU and Regional market prices for white sugar



EU market price and world market prices London 5 and NY 11 - first future - €/t

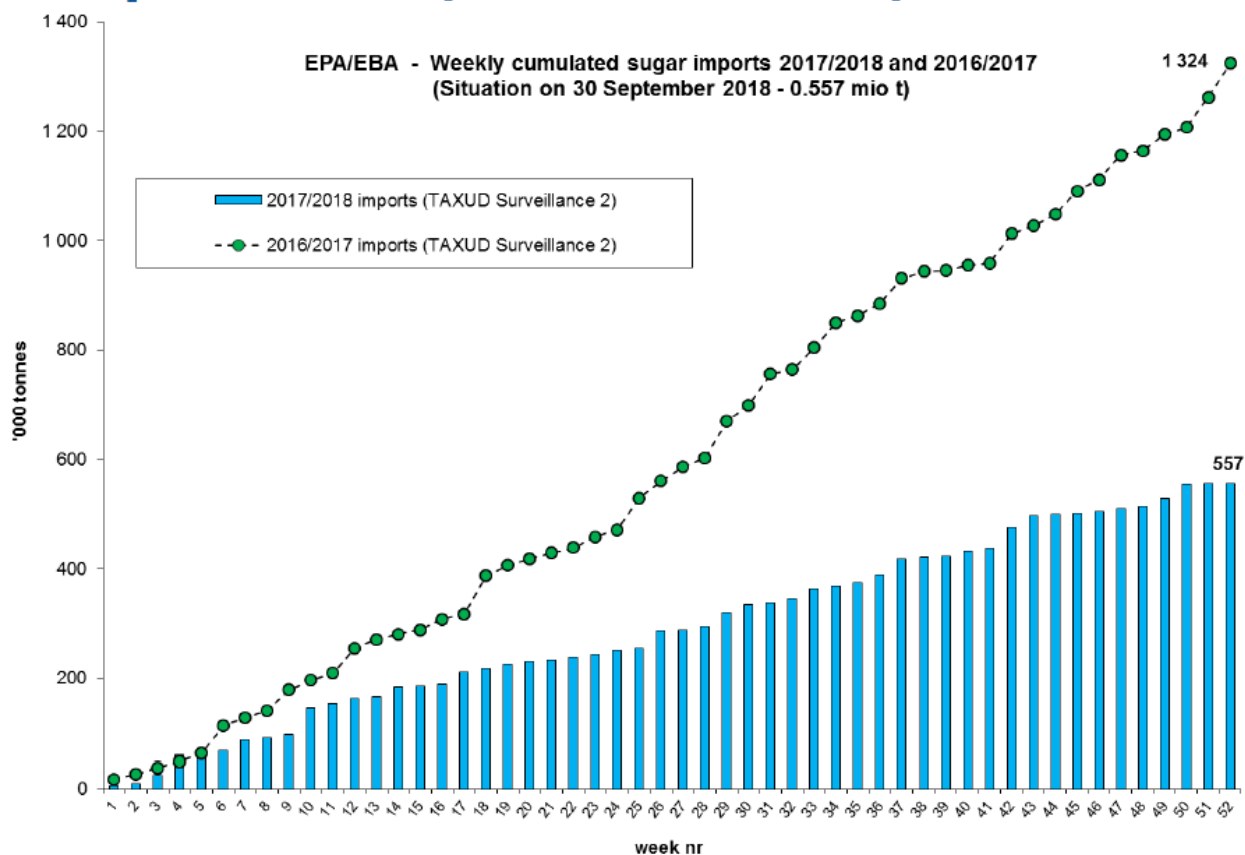


Source: European Commission

Trade: Imports

EU sugar imports in MY 2019/20 are forecast to remain stable at 1.5 million MT, the same level as in MY 2018/19. Much may depend on the future sugar price developments and, for raw sugar imports, on the evolution of the sugar refining premium, which is critical for EU sugar refiners to be able to step up when sugar supply shortages threaten. In January 2019, the European Sugar Refiners' Association (ESRA) published a [study](#)^[1] on the challenges that its industry faces for sourcing raw sugar into the EU. For MY 2017/18, final EU raw sugar imports ended just under 1 million MT, a record low, while refined sugar imports reached 400,000 MT. Imports from EPA/EBA^[2] countries were less than half MY 2016/17 volume, while the CXL quota^[3], which carry a €98/MT duty, went virtually unused. The remaining imports came from countries, mainly in Central America and South Africa, with whom the EU recently concluded free-trade agreements (FTAs).

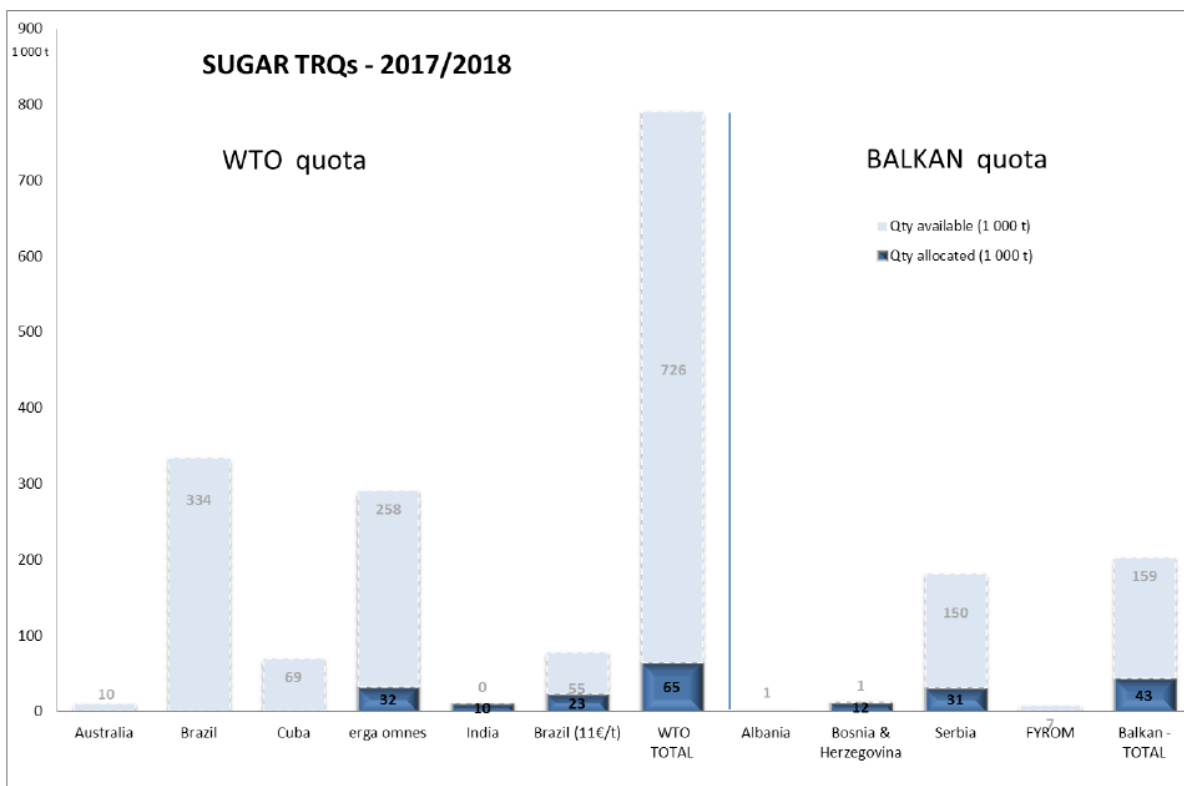
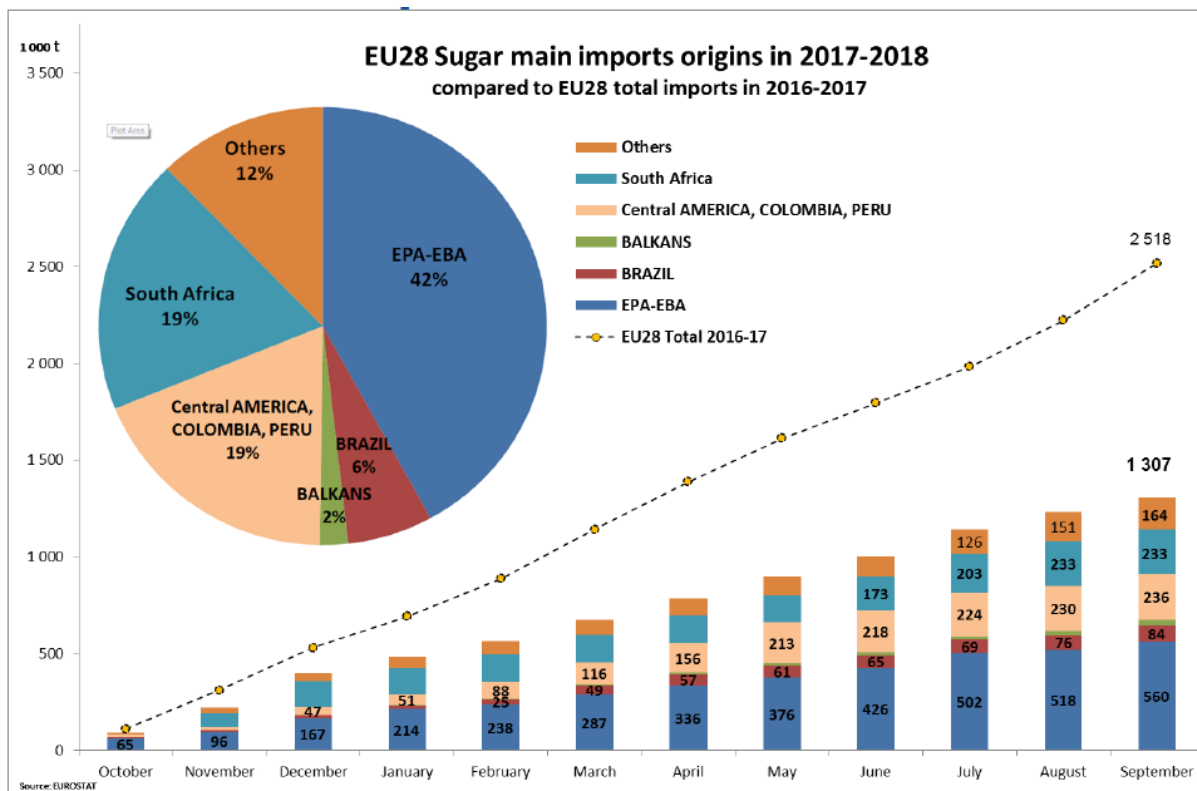
. Imports EPA / EBA in 2017/2018



^[1] http://www.sugarrefineries.eu/uploads/media/ESRA_study_raw_materials_2019.pdf

^[2] EPA/EBA: Economic Partnership Agreements and Everything-But-Arms Agreement

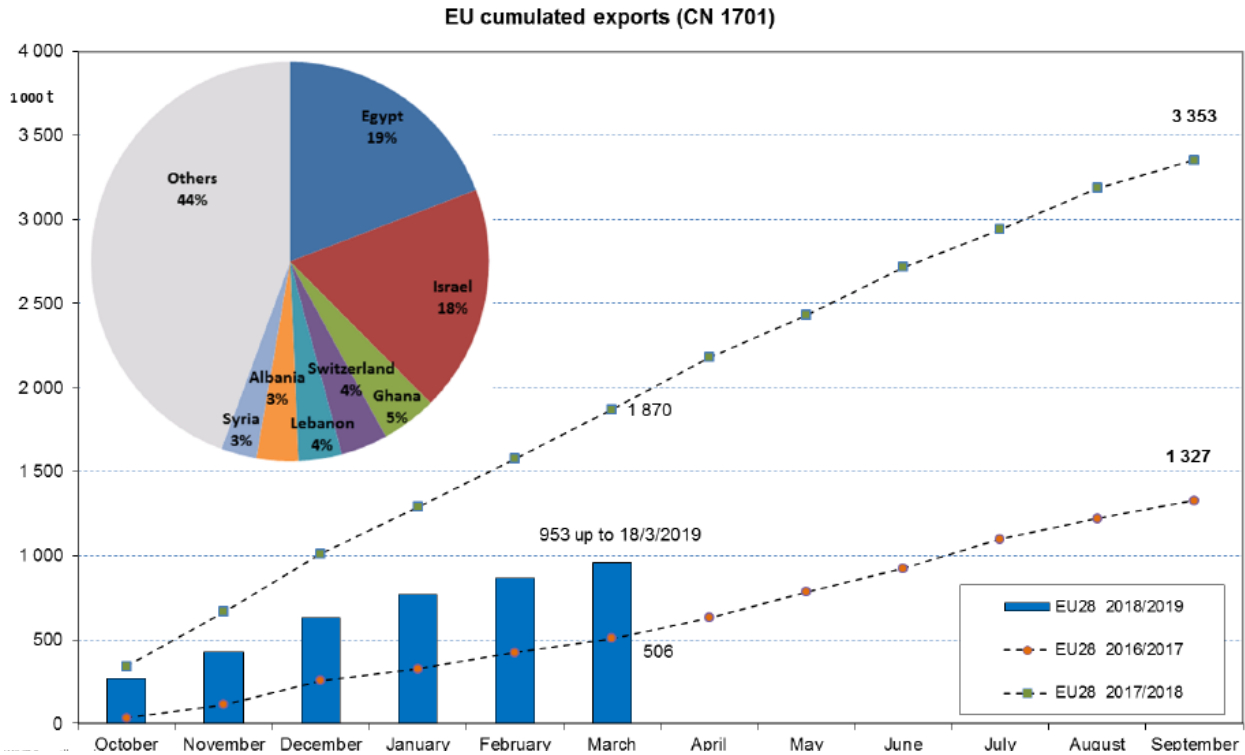
^[3] EU CXL import quota were agreed as part of the EU's market access concessions in the GATT trade negotiations.



Source: European Commission
Exports

Sugar exports from the EU for MY 2019/20, almost exclusively refined sugar, are forecast at 2.4 million MT, which is 20 percent higher than in MY 2018/19, but 1.5 million MT below MY 2017/18. The expected sugar export for MY 2018/19 was adjusted 1 million MT down to 2 million MT, in line with reduced production. EU sugar exports are struggling to find markets in light of heavy world market competition. EU sugar exports are traditionally to North-African and Middle-Eastern countries.

The final export number for MY 2017/18 ended above 3.9 million MT RSE.



Source: European Commission

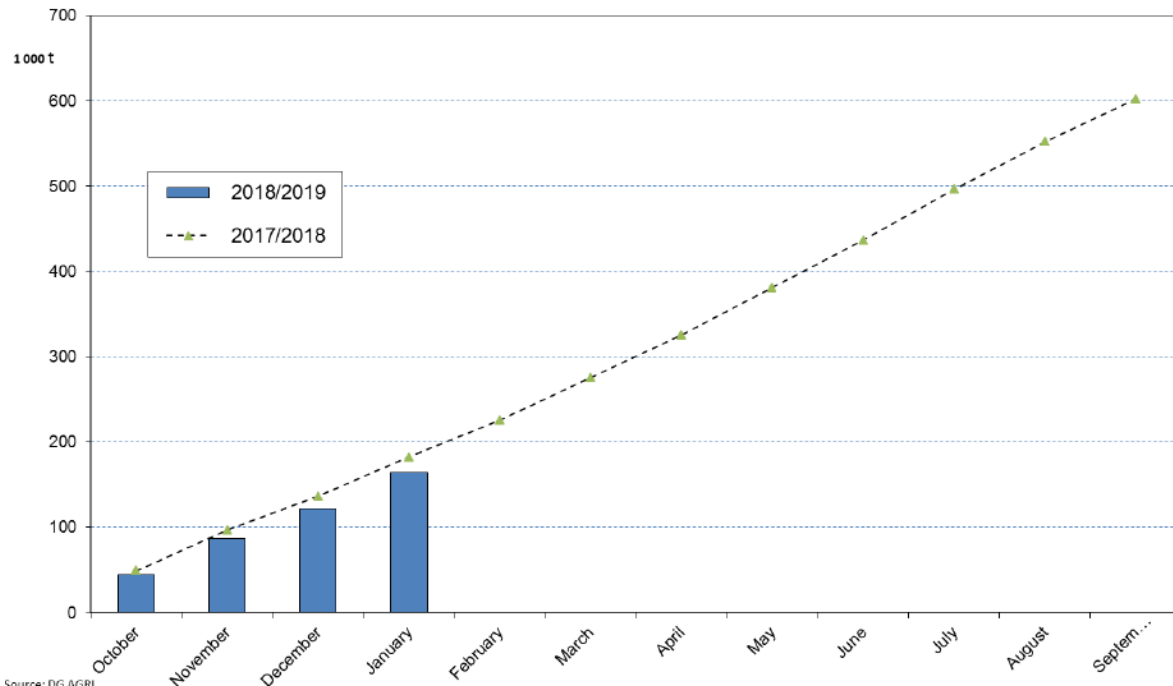
Stocks:

EU sugar stocks at the end of MY 2019/20 are not expected to recover from their end-of-pipe level of just 1 million MT at the end of MY 2018/19. This is a reduction of almost 50 percent from its end of MY 17/18 level. This level may leave some sugar users scrambling for supplies after just one year of abundant supplies, even as it is unclear what the impact will be on EU sugar prices.

Isoglucose

Isoglucose production in the EU for MY 2019/20 is forecast to reach 900,000 MT, after dipping to 770,000 MT in MY 2017/18 after the end of the sugar quota system that also regulated isoglucose production. However, it is unlikely that isoglucose production will increase further after a new Hungarian plant reached full capacity, at least not for as long as EU sugar prices remain depressed.

ISOGLUCOSE - EU monthly cumulated production for 2018/2019



Source: DG AGRI

Source: European Commission

Policy:

Brexit

At the time of writing, the UK remains a member of the EU and it is not clear if, when or in what form it will leave. The two-year period for the United Kingdom (UK) to leave the EU - after Prime Minister (PM) Theresa May triggered Article 50 of the European Treaties - passed on March 29, 2019 but has been extended twice.

The basis for the UK's departure remains the [Withdrawal Agreement](#)^[1] PM May agreed with the EU in late 2018 but it is yet to be passed by the UK Parliament. A short extension to Article 50 agreed in late March was further extended on April 11, when PM May and her EU27 counterparts agreed to October 31, 2019 as the new end date. The UK will leave the bloc earlier if both parties are able to ratify the Withdrawal Agreement before the end of the extension. The

^[1] [http://europa.eu/rapid/press-release MEMO-18-6422 en.htm](http://europa.eu/rapid/press-release_MEMO-18-6422_en.htm)

Withdrawal Agreement provides a transition period until December 31, 2020, during which the EU and the UK should conclude a FTA. During this transition time, the UK would continue to belong to the EU Customs Union and apply all EU legislation.

If the October 31 deadline is reached without ratification of the Withdrawal Agreement, without an agreed (third) Article 50 extension or the UK does not withdraw its Article 50 notification, it will leave under a ‘no deal’ scenario. This will see WTO rules apply for the relationship between the former partners. On March 13, 2019 the UK Department of International Trade published the Most Favored Nation (MF) tariff schedule and import quota that would apply in that scenario. Raw sugar for direct use would face an import duty of €419/MT, while raw sugar for refining would carry a €339/MT duty. However, the UK provides a duty-free Tariff Rate Quota (TRQ) of 260,000MT annually. Refined sugar carries a €150/MT duty. The UK also published the full [list](#) and details of the TRQs that it will operate as agreed with the EU on splitting EU quotas.

Update on Discussions for the Next Common Agricultural Policy (CAP) After 2020

On June 1, 2018, Commissioner for Agriculture Hogan presented Commission [proposals for the next CAP](#). The proposals center around nine objectives:

- to ensure a fair income to farmers
- to increase competitiveness
- to rebalance the power in the food chain
- climate change action
- environmental care
- to preserve landscapes and biodiversity
- to support generational renewal vibrant rural areas
- to protect food and health quality.

The Commission foresees a decrease in funding for the new CAP of five percent, with an average decrease in direct payments of some 15 percent. The Commission sets high ambitions on environmental and climate action through the rural development or second pillar and intends to increase subsidiarity towards MS.

On April 9, the Agricultural Committee of the European Parliament (EP) voted the draft report prepared by rapporteur Eric Andrieu with amendments on the proposal for the new Common Market Organization (CMO) Regulation. The proposal will now be submitted to EP Plenary and the Council, but the vote will occur after the European elections for a new European Parliament (EP) set for May 2019. With the installation of a new Commission in November of 2019, it is unlikely that the new CAP negotiations will be concluded in time. These proposals are further depending on the EU’s next Financial Framework, which has yet to be set and which is likely to be heavily impacted by the UK decision to leave the EU. As a result, it is likely that an extension of the current CAP will be decided before the new Commission and EP are able to implement the new CAP.

Related reports from FAS Post in the European Union:

Country	Title	Date
Poland	Drought Subsidies Made Available for Polish Farmers	10/09/2018
Netherlands	The Diverse Effects of the Drought	9/24/2018
EU28	Sugar, Centrifugal Widespread Drought Curtails EU 2018 Sugar Beet	10/3/2018

